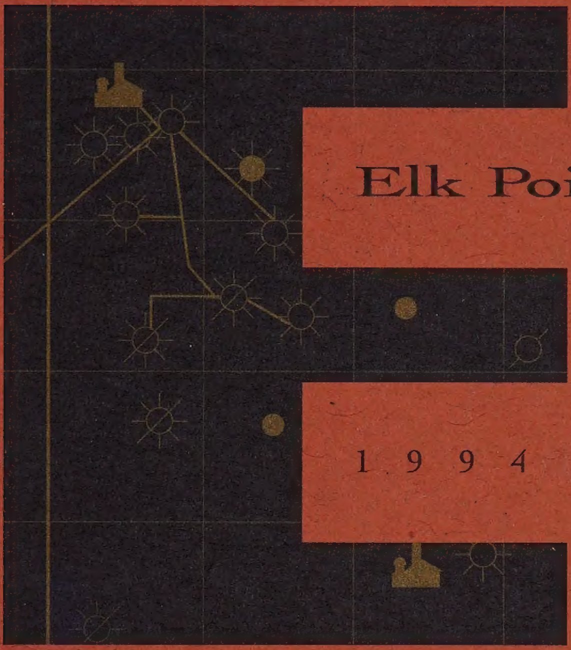


Elk Point Resources Inc.

1 9 9 4 *Annual Report*

Annual Meeting

The Annual General Meeting of Shareholders will held on Tuesday, May 30, 1995 at 3:00 pm at the Calgary Petroleum Club, 319-5 Avenue S.W., Calgary. All Shareholders and other interested parties are invited to attend.

Elk Point Resources Inc.

is an emerging junior oil and gas company with headquarters in Calgary, Alberta. The Company is engaged in the acquisition, exploration, production and marketing of natural gas and crude oil in Western Canada. Elk Point Resources Inc. is listed for trading on The Alberta Stock Exchange under the symbol ELK.

Key components of the Company's strategy for profitable growth include ■ creating a high-energy corporate environment focused on adding value ■ exploration on low to medium risk oil and natural gas prospects complemented by acquisition and production enhancement activities ■ strict monitoring of operating and general and administrative costs ■ developing core areas to achieve operational focus ■ setting annual performance targets based on defined critical success factors for the Company ■ natural gas acquisitions which capitalize on management's expertise in engineering, operations and marketing ■ crude oil and natural gas exploration which takes advantage of in-house exploration finesse ■ and developing strategic alliances to generate additional business opportunities.

Highlights

Elk Point implemented its strategic plan successfully in 1994 by completing four acquisitions and two equity financings, establishing a stable cash flow base, developing core areas, adding geological and operational expertise to its management team, increasing operatorship of its natural gas production and participating with higher working interests in petroleum processing facilities.

The Company exited the year with production of 700 barrels of oil equivalent per day, an expanded management team, a portfolio of low risk development projects, a significant undeveloped land base and an exciting exploratory and development drilling program.

Elk Point is on target for continued growth in 1995 fueled by a strategic gas purchase contract with ProGas Limited, early drilling success and the creative energy of a dynamic management team.

REPORT to Shareholders

In 1994, Elk Point's inaugural year of oil and gas operations, the Company achieved its major goals including building a substantial production and cash flow base; establishing core areas; adding geological and operational expertise to its management team; increasing its operatorship of producing oil and natural gas properties; and participating with high working interests in petroleum processing facilities.

The Company established itself in 1994 as an emerging junior producer positioned for profitable growth with a long-term vision, a well-defined strategy and an empowered management team. Guided by its strategic plan, the Company completed a series of acquisitions, implemented development projects on its acquired properties, expanded its management team and exited the year at production rates exceeding 700 barrels of oil per day equivalent.

CORPORATE DEVELOPMENT

Elk Point Resources Inc. raised funds totaling $5,560,388 during the year to finance its acquisition and development activities.

On March 15, 1994, the Company issued 3,850,000 Special Warrants at a price of $0.40 per special warrant for gross proceeds of $1.54 million. Each Special Warrant entitled the holder to acquire one Common Share of the Company at no additional cost. Elk Point received a receipt for a Final Prospectus from the Provinces of Alberta, British Columbia and Ontario on June 10, 1994 qualifying for distribution 3,850,000 Common Shares of the Company upon exercise of these Special Warrants.

On June 20, 1994, 635,750 share purchase warrants were exercised at a price of $0.85 per share for gross proceeds of $540,388. The remaining 464,250 share purchase warrants expired.

On November 2, 1994, the Company issued 5,800,000 Special Warrants at a price of $0.60 per Special Warrant for gross proceeds of $3.48 million. Each Special Warrant entitles the holder to acquire one Common Share of the Company at no additional cost. Elk Point Resources Inc. received a receipt for a Final Prospectus on February 17, 1995 from the Provinces of Alberta, Ontario and British Columbia qualifying for distribution 5,800,000 Common Shares of the Company upon exercise of the Special Warrants.

ACQUISITIONS

The Company's significant growth in 1994 was attributable to a focus on acquisition and production enhancement activities. With a solid cash flow base established, Elk Point will augment these activities with a low to medium risk exploration program in 1995 aimed at both natural gas and oil prospects. A review of the past year's acquisitions demonstrates the Company's ability to identify acquisition targets and compete successfully in an acquisition environment which was extremely competitive.

- On March 15, 1994, Elk Point acquired an interest in two producing and 20 shut-in gas wells and 23 undrilled sections of undeveloped lands in the Pinehurst and Heart Lake areas of Northeastern Alberta.
- On October 20, 1994, the Company acquired an interest in ten shut-in gas wells in the same Pinehurst and Heart Lake areas and a minor interest in the Mitsue Gilwood Sand Unit #1, which is producing 15 barrels per day of light sweet crude oil net to the Company.
- On November 2, 1994, Elk Point completed the acquisition of interests ranging from 66.7 percent to 100 percent in five producing and six shut-in gas wells and 67.5 percent in a natural gas plant and gathering system in the Amisk area of Northeastern Alberta.
- On December 15, 1994, the Company acquired a 50 percent working interest in three shut-in gas wells and 640 net acres of undeveloped lands in the Pinehurst area.

These acquisitions have positioned the Company with high working interests in two operated areas at Amisk and Pinehurst and a non-operated area at Heart Lake which have significant undeveloped lands for future development.

EXPLORATION

Elk Point embarked on two joint ventures, participated in land sales on two oil prospects and one natural gas prospect and executed an 11 section farm-in in the Company's core area at Pinehurst.

The Company is reviewing a drilling program of 10 to 15 gross wells for 1995 in four existing and two new areas of activity.

OPERATIONS

Elk Point participated in the drilling of six gross (1.54 net) wells in 1994. Three gross (0.36 net) wells were cased as gas wells, all in the Saddle Hills area, and three gross (1.08 net) wells were dry and abandoned.

After assuming control of the Amisk property as operator on November 2, 1994, the Company successfully completed a well workover, completion and tie-in program in November and December 1994, boosting its net production from 2.2 million cubic feet per day to 3.8 million cubic feet per day.

At Pinehurst, the Company completed two wells and installed a plant and gathering system which was placed onstream on December 27, 1994. This facility was expanded from 3 million cubic feet per day to 5.5 million cubic feet per day in February 1995 and three additional wells were completed and placed onstream. The Company also drilled, completed and placed two new wells onstream in early March 1995. Current net production from the Pinehurst facility is 3.0 million cubic feet per day.

As an operator of natural gas gathering and processing facilities in two core producing areas, Elk Point will exercise greater control of its operating costs and development programs.

FINANCIAL

During 1994, Elk Point recorded cash flow of $652,990 and revenue of $1.5 million. Capital expenditures for 1994 totalled $7.66 million. Elk Point has budgeted a capital program of $3.2 million for 1995 funded from cash flow and a revolving production loan facility of $3.2 million.

INDUSTRY ENVIRONMENT

The Canadian oil and gas sector recorded one of its busiest years ever in 1994 and prices for equipment and services escalated severely. Competition among producers for petroleum and natural gas rights and oil and natural gas acquisitions was ravenous and resulted in higher finding costs industry wide.

Crude oil prices strengthened in the second half of 1994 and Canadian producers benefited from a weakened Canadian dollar. World oil demand seems to be in a tenuous balance with supply as record production levels from Norway and Britain and the potential for Iraq oil to return to the market balanced a steady increase in global demand and kept a ceiling on any upward oil price recovery.

North American natural gas prices were strong at the start of the year but waned at year end under a scenario of a warm winter and high storage inventories. Canadian natural gas exports to the United States continued to climb to record levels in 1994 at 2.5 trillion cubic feet as Canada's share of the U.S. natural gas market grew to 12 percent with increased pipeline access. In early 1995, seasonally warm weather and high storage levels of natural gas in Canada and the United States have resulted in lower natural gas prices.

Activity levels of Canadian producers are likely to drop substantially in the second quarter of 1995 and over the remainder of the year as lower natural gas prices erode cash flows and reduce access to capital. This will also reduce some of the increased cost pressures which resulted from an overheated industry sector. Acquisition opportunities are likely to increase as some companies take steps to improve their balance sheets and effectiveness through asset disposition activities.

In this new environment, Elk Point's ability to compete will be enhanced by its well-defined strategy and highly-skilled management team.

MANAGEMENT TEAM

A key objective of the past year was to assemble a management team with the skill, energy and commitment to drive the Company's growth. This was achieved successfully as:

■ In September 1994, Mr. Troy K. Brazzoni, P. Geol., joined Elk Point as Exploration Manager with a mandate to develop an exploration strategy and lead the Company's exploration activities;

■ On January 1, 1995, Mr. Brian J. Goodfellow, P. Eng., was hired as Manager, Production and Operations in recognition of the Company's increasing role as operator. Brian will direct the Company's operations and implement projects for production enhancement.

The experience, energy, creativity and commitment these professionals bring to Elk Point are a significant asset of the Company. Their ability to generate ideas for adding value will be a major source of Elk Point's future success.

OUTLOOK

Elk Point Resources Inc. is facing the challenges and opportunities of 1995 with a management team focused on creating value and increasing the Company's production and asset base. The Company has a well developed strategic plan and aggressive targets for growth.

Exploration, acquisitions, land, marketing, production optimization and finance are functional areas identified for value added activities. A corporate environment which emphasizes continuous improvement, personal growth, and willingness to accept responsibility is a key component of the Company's strategy for long-term growth.

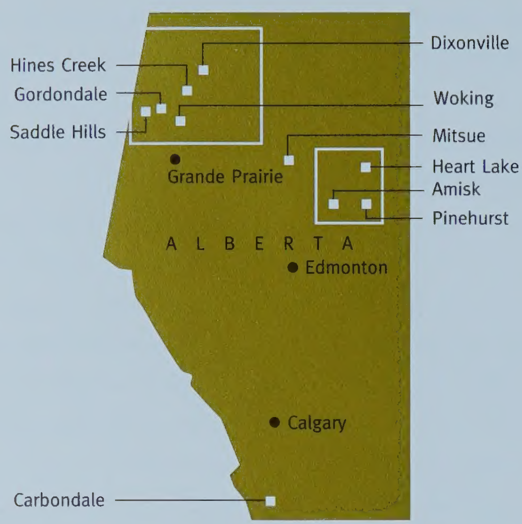
The Company would like to thank its shareholders for their continued support and welcome all new shareholders who chose to participate in our recent equity financings. The Company regretfully advises that Mr. Richard Osler has resigned from its Board of Directors due to his expanding business commitments. Mr. Osler has been a director of Elk Point since it was reorganized as an oil and gas entity in 1993 and made a significant contribution to the Company's growth to date. Mr. Osler's support and the ongoing direction and guidance provided by the Company's Board of Directors is acknowledged and appreciated. I would also like to thank Elk Point's management team and consulting staff for its commitment and dedication to building a profitable oil and gas company.

Respectfully submitted on behalf of the Board of Directors,

Aidan M. Walsh
President and Chief Executive Officer
April 12, 1995

PROPERTY REVIEW

AREAS OF OPERATIONS



Elk Point's development activities in 1994 were primarily focused on its operated core areas at Pinehurst and Amisk and its key non-operated properties at Woking and Saddle Hills.

PINEHURST

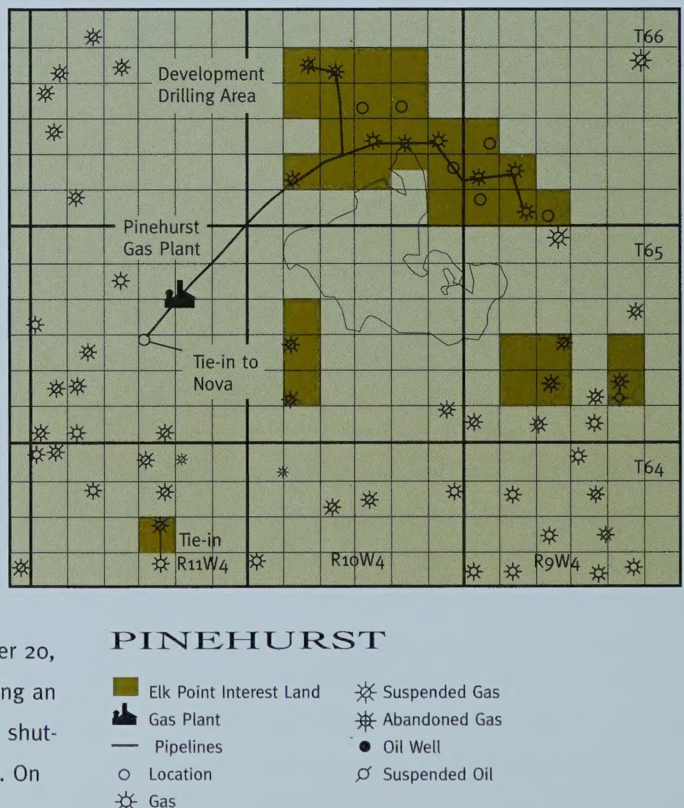
Elk Point operates and owns 50 percent of a natural gas gathering and processing facility in the Pinehurst area, located approximately 100 miles northeast of Edmonton. The Company owns interests in 33.5 sections of petroleum and natural gas rights, of which 6,683 net acres are undeveloped.

Elk Point developed the Pinehurst property as a grass roots project using its in-house technical expertise in acquisitions, project development, facility design and construction, exploration, drilling and completions and marketing.

The Company acquired its original interests in this area on March 15, 1994 purchasing interests ranging from 25 percent to 75 percent in six shut-in gas wells and 2,662 net acres of undeveloped land. On October 20, 1994, Elk Point increased its interests by acquiring an additional working interest of 33 percent in two shut-in wells and 424 net acres of undeveloped land. On December 15, 1994, the Company acquired a 50 percent working interest in three shut-in gas wells and 640 net acres of undeveloped lands.

Early in 1995, the Company augmented its holdings in the Pinehurst area by negotiating a farm-in on 11 1/2 sections of undeveloped lands. Elk Point has committed to drill three wells by March 31, 1996 to earn the interests in 2,957 net acres of undeveloped lands. Two of the earning wells were drilled in February 1995 and were immediately completed and placed onstream in early March 1995 demonstrating the Company's ability to perform its field operations in a highly proficient manner.

Elk Point completed the installation of a 3.0 million cubic feet per day central gas plant at Pinehurst on December 27, 1994 and expanded it to a 5.5 million cubic feet per day design capacity by the end of February 1995. The gas gathering system was also expanded and is capable of handling in excess of 6 million cubic feet per day. The gas gathering system for the Pinehurst project is located in the Lakeland Provincial Recreational Area. Prior to developing the project, Elk Point undertook an environmental impact study under the guidance of Alberta Parks Service

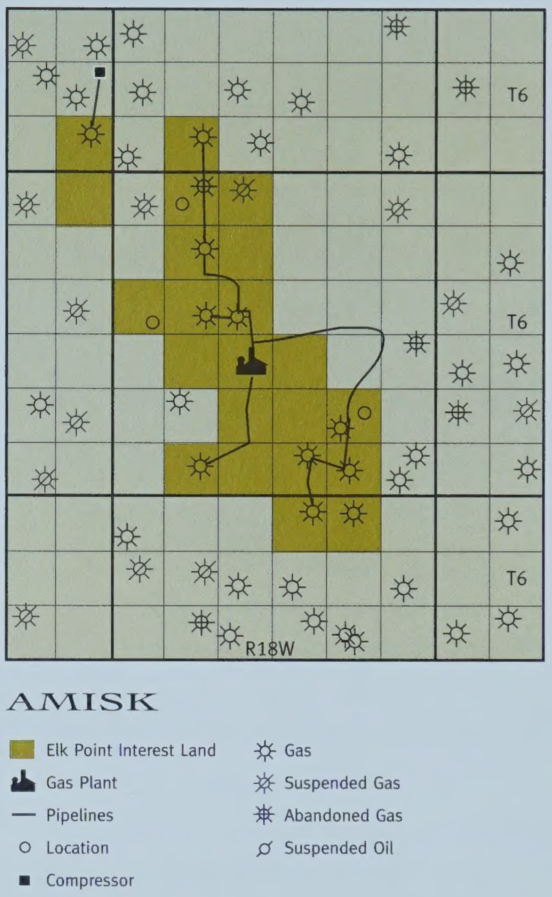


officials, Lakeland District, to assess the impact of the proposed development on the area and ensure the development was carried out in an environmentally benign manner. Using a consultative planning process with the Lakeland district officials, a project development scenario was devised incorporating a new trail system for the provincial recreational area. Existing cut lines were used whenever practical for the pipeline system routes and the central site was selected at an existing cleared site outside the boundaries of the provincial recreational area.

Project financing was negotiated for 50 percent of the main processing facilities and gas gathering system, with Elk Point retaining operatorship and the remaining ownership in the facilities. Production through the facilities is currently 5.5 gross (3.0 net) million cubic feet per day. The Company derives processing income on 50 percent of the 2.3 million cubic feet per day of outside gas being gathered and processed through the Pinehurst facilities.

The Company has dedicated the Pinehurst natural gas reserves to a long-term gas contract with ProGas Limited. Sales under this contract are scheduled to commence at 0.5 million cubic feet per day on April 1, 1995 and increase to 3.5 million cubic feet per day on May 1, 1995.

The Company has identified six seismic anomalies on its existing lands and earning lands under its farm-in arrangement for future development drilling.



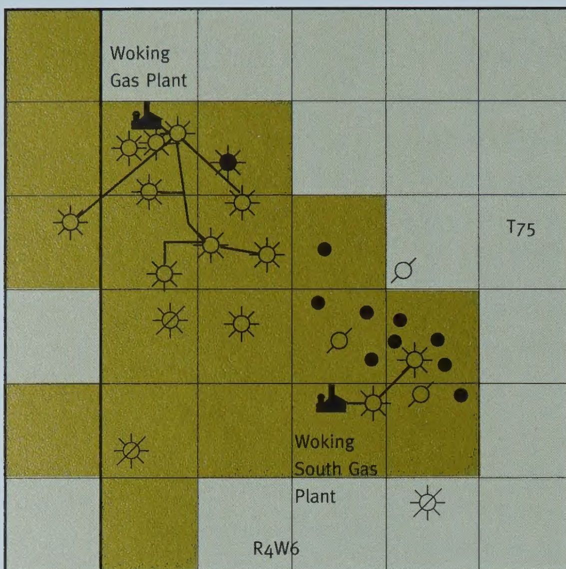
AMISK

AMISK

The Amisk area is located approximately 70 miles northeast of Edmonton. On November 2, 1994, Elk Point acquired operatorship and working interests ranging from 67 percent to 100 percent in six producing and five shut-in gas wells and a 67.5 percent working interest in a central gas plant facility in this area. This facility is capable of processing seven million cubic feet per day at current inlet pressures. The property also includes a 66.67 percent working interest in a booster compressor and a 20.1 percent interest in a gathering pipeline which transports production from one of the wells to a third party operated gas plant at Flat Lake. Elk Point increased production in the area from 2.5 gross (2.2 net) to five gross (3.8 net) million cubic feet per day by completing uphole gas zones and tieing in two shut-in gas wells. The next phase of enhancement of this property will be the addition of booster compression and development drilling of two to three wells on the 3,205 net acres of undeveloped lands. On February 1, 1995, natural gas sales from this property were diverted from the spot market to a long-term gas contract with ProGas Limited enhancing the netback price.

WOKING

The Woking area is located in northwestern Alberta approximately 40 miles northeast of Grande Prairie. Natural gas is produced in this area from the Paddy, Cadotte, Notikewin, Bluesky, Gething, Cadomin, Belloy and Kiskatinaw formations. Elk Point has a 25 percent working interest in the Woking gas plant which has a design capacity of five million cubic feet per day. The Company tied in two gas wells at Woking in 1994, with working interests of 25 percent, bringing current production to 1.3 million cubic feet per day net to the Company.



WOKING

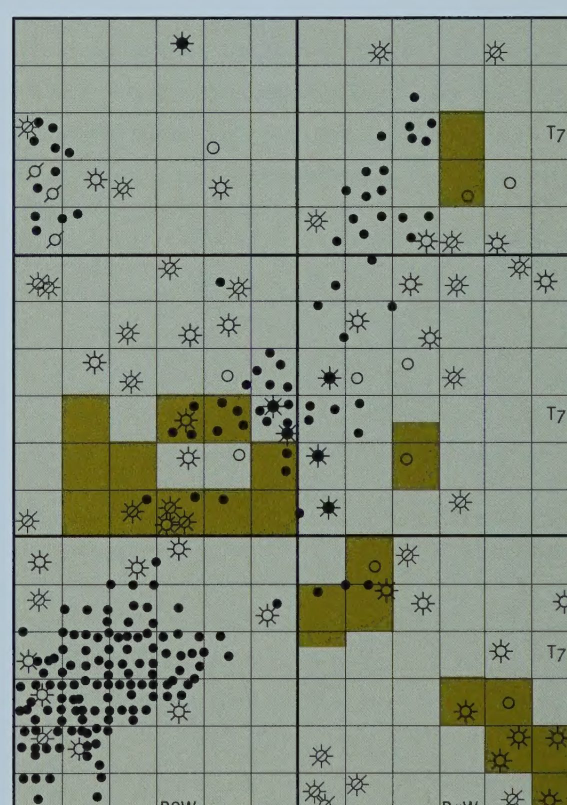
Elk Point Interest Land
Gas Plant
Pipelines
Location
Gas
Suspended Gas
Abandoned Gas
Oil Well
Suspended Oil

The Woking South gas project was the most recent phase of development in the area in late 1994. This involved tieing in Cretaceous gas at Woking South from the Gething, Cadomin and Paddy zones into a 6 million cubic feet per day gas plant under a processing fee arrangement. The Company's net share of capacity and sales is presently 250 thousand cubic feet per day with potential to increase to 400 thousand cubic feet per day later in 1995 as available plant capacity increases. Additional gas reserves have been identified in uphole zones in existing well bores in the southern portion of Woking for future development.

Elk Point has various interests in six oil wells in this area, which are producing approximately 43 barrels per day net the Company of 32° API light sweet oil from the Halfway formation. The operator recently obtained Good Production Practice status from the Alberta Energy Resources Conservation Board for this property.

SADDLE HILLS

The Saddle Hills area is located in northwestern Alberta, approximately 35 miles northeast of Grande Prairie. The Company owns various working interests in ten producing oil wells in this area with net production of five barrels per day of light oil from the Doe Creek formation. Elk Point has interests in 2,943 net acres in this area, 2,247 net acres of which are undeveloped. In 1994, the Company participated in the drilling of three gas wells in the area, with working interests of 25 percent, eight percent and two percent. All of these wells were cased as gas wells, and the well in which Elk Point has an eight percent working interest was placed onstream in March 1995 and is producing 120 thousand cubic feet per day net to the Company. Elk Point has drilled and cased one gas well in this area in 1995 with a working interest of 25 percent. Elk Point plans to drill at least two additional development wells in this area in 1995 with working interests of 50 percent and 25 percent.



SADDLE HILLS

Elk Point Interest Land
Location
Gas
Suspended Gas
Abandoned Gas
Oil Well
Suspended Oil

HEART LAKE

As a result of two acquisitions in March and October 1994, Elk Point owns interests in 5,181 net acres of petroleum and natural gas rights in the Heart Lake area, 2,267 net acres of which are undeveloped. The Company's interests include eight (2.57 net) shut-in and two (0.50 net) producing Grand Rapids gas wells which are producing 150 thousand cubic feet per day net to the Company.

This area is scheduled to be developed during the winter season of 1995/1996 by tieing in shut-in wells and adding compressor facilities. There is potential for additional development drilling on the Company's undeveloped lands.

DIXONVILLE

The Dixonville area is located approximately 40 miles northeast of Peace River in northwestern Alberta. In this area, the Company has 12.5 percent working interests in three shut-in gas wells. A gas well is scheduled to be tied in during the winter of 1995/1996 which will increase the Company's net production by 250 thousand cubic feet per day. Elk Point has 1,007 net acres of undeveloped land in this area.

GORDONDALE

The Gordondale area is located 50 miles northeast of Grande Prairie in northwestern Alberta. In addition to net oil production of six barrels of oil per day from the Progress Doe Creek Unit No. 1 which is currently under waterflood, Elk Point has a 12.5 percent working interest in a Notikewin gas well and a 12.5 percent working interest in a Charlie Lake gas well, both of which are currently shut-in. The Company will participate in the drilling of one well in the area in 1995 with several prospective horizons.

CARBONDALE

The Carbondale area is located in southwestern Alberta. Elk Point holds a 4.97 percent working interest in a Wabamun gas well which is currently shut-in. The Company also holds an interest in 1,736 net acres of petroleum and natural gas rights in this area which is primarily undeveloped.

Reserves (at December 31, 1994)

	Natural Gas (Bcf)	Crude Oil & Natural Gas Liquids (Mbbls)
Proven	12.8	186.9
Probable	4.1	55.3
	16.9	242.2

Reconciliation of Changes in Company Working Interest Reserves

	Natural Gas (Bcf)	Crude Oil (Mbbls)	Natural Gas Liquids (Mbbls)
Proven Plus Probable:			
Reserves Dec. 31, 1993	5.0	236.5	0.0
Production to Dec. 31, 1994	0.7	21.4	0.7
Net Additions	12.6	21.3	6.5
Divestitures	–	–	–
Reserves Dec. 31, 1994	16.9	236.4	5.8

ENVIRONMENT

The Company is aware of the risks to the environment which are inherent in its business activities. Specifically, risks include the potential pollution of the air, land and water, and the disruption of natural habitats. Elk Point is committed to protecting and maintaining the environment with respect to all corporate operations on behalf of shareholders, employees and the general public. The Company conducts its business in compliance with all provincial and federal operations and environmental regulations, and refers to the Environmental Operating Guidelines for the Alberta Petroleum Industry as a guide. The planning and due diligence exercised by the Company is evidenced by the consultative approach taken on at its Pinehurst natural gas project. By conducting its operations with the protection of the environment as a priority, the Company reduces the risks associated with its activities.

Management's Discussion and Analysis of Operating Results

In 1994, Elk Point's first full year of operations as an oil and gas entity, the Company established a production and cash flow base through a series of acquisitions, two equity financings, and development projects on its acquired properties.

FINANCIAL

Revenues Gross revenue from oil and natural gas production net of royalties was $1.5 million in 1994 compared to nil in 1993. Natural gas sales averaged 1.8 million cubic feet per day, receiving an average price of $1.64 per thousand cubic feet, while crude oil and natural gas liquids sales were 61 barrels per day and averaged $18.76 per barrel. The Company had no crude oil or natural gas production in 1993.

Interest and Other Income Interest income earned was $11,245 in 1994 compared to $54,448 in 1993. This decrease was due to the Company's working capital requirements for its investments in development projects.

Other income was $16,095 in 1994 compared to $2,319 in 1993. The increase was primarily due to compensation of $12,500 from the Government of Canada pertaining to the Company's previous game ranching operations.

General and Administrative Expenses General and administrative expenses for 1994 were $366,330 compared to $160,660 in 1993 reflecting start-up costs and the increased activity of the Company in its first year of oil and gas operations.

Production Expenses Production expenses in 1994 totaled $470,326 compared to nil in 1993. The Company's natural gas production was completely non-operated for the first ten months of 1994, so management had little control over operating costs during that period. However, by the end of 1994, the Company's net natural gas production was 70 percent operated and operating costs were trending downward. Elk Point's crude oil and natural gas liquids production is non-operated. High costs associated with trucking and treating crude oil and disposing of water on the Woking property had a major impact on the operating costs for crude oil and natural gas liquids. These costs were decreasing near the end of the year as production increased when the operator obtained Good Production Practice status for the property from the Alberta Energy Resources Conservation Board.

Interest Expense Interest expense increased to $60,296 in 1994 from nil in 1993 due to increased debt financing to facilitate the Company's acquisitions at Woking, Amisk, Pinehurst, Heart Lake and capital investments in the Company's areas of focus.

Depletion, Depreciation and Site Restoration The depletion and depreciation rate in 1994 was 5.6 percent. A depletion and depreciation rate was not applicable in 1993. The depletion and depreciation provision was $528,000 including a provision of $13,000 for site restoration as a result of the Company's commencement of oil and gas sales in 1994.

Income Taxes A provision for deferred taxes was not required in 1994. The Company has sufficient tax pools available to shelter any current tax that would otherwise be payable over the course of 1995.

Cash Flow Cash flow from operations in 1994 was $652,990 compared to negative cash flow from operations of $103,893 in 1993 reflecting commencement of oil and gas production by the Company in 1994.

Net Income (Loss) From Continuing Operations Net income from continuing operations was $124,990 in 1994 compared to a loss of $103,893 from continuing operations plus a $33,999 loss from discontinued operations in 1993. This improvement is a direct result of the Company's reorganization as an oil and natural gas entity and investments in oil and gas properties.

Liquidity and Capital Resources Capital expenditures of $7.66 million in 1994 were financed through cash flow, bank debt and the issuance of shares. At year end, Elk Point had drawn $2.24 million on its revolving production loan facility of $3.2 million leaving $960,000 available plus internally generated funds for the Company's ongoing acquisition, exploration and development activities.

OUTLOOK

The Company has budgeted capital expenditures of $3.2 million in 1995 for exploration and development activities. Elk Point has sufficient cash flow from operations and unused funds from its revolving production loan facility to fund its capital expenditure requirements based on current operations. The level of capital expenditures is determined by the financial resources available. There are no long term capital expenditure commitments outstanding. Elk Point continues to evaluate potential property and corporate acquisitions and will consider various alternatives in financing possible acquisitions, including financing from available cash flow, bank debt and possible future sale of equity.

Auditors' *Report to the Shareholders*

We have audited the consolidated balance sheets of Elk Point Resources Inc. as at December 31, 1994 and 1993 and the consolidated statements of operations, deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne.

CHARTERED ACCOUNTANTS
CALGARY, CANADA
MARCH 24, 1995

Management's *Report*

The accompanying financial statements and all information in the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies described in the notes to the financial statements. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements.

Management has developed and maintains systems of internal accounting controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguarding of assets.

External auditors, appointed by the shareholders of the Company, have examined the financial statements and have expressed an opinion on the statements. Their report is included with the financial statements.

The Board of Directors of the Company has established an Audit Committee, consisting of non-management directors, to review these statements with management and the auditors. The Audit Committee has approved these statements on behalf of the Company's Board of Directors.

Aidan Walsh

AIDAN M. WALSH
PRESIDENT AND CHIEF EXECUTIVE OFFICER

1994 Financial Statements

CONSOLIDATED BALANCE SHEETS

December 31	1994	1993
ASSETS		
Current assets:		
Cash	$ –	$ 364,626
Accounts receivable	**2,569,600**	300,230
Due from officer - current portion (note 3)	**22,750**	22,750
	2,592,350	687,606
Due from officer (note 3)	**22,750**	45,500
Petroleum and natural gas properties (note 4)	**10,335,473**	3,193,732
	$ 12,950,573	$ 3,926,838
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness (note 5)	**$ 14,646**	$ –
Accounts payable and accrued liabilities	**2,970,150**	289,457
Current portion of long-term debt (note 6)	–	600,000
	2,984,796	889,457
Long-term debt (note 6)	**2,240,000**	575,000
Provision for site restoration	**13,000**	–
Shareholders' equity		
Share capital (note 7)	**4,812,560**	2,911,694
Shares reserved for issuance (note 7)	**3,224,540**	–
Deficit	**(324,323)**	(449,313)
	7,712,777	2,462,381
	$ 12,950,573	$ 3,926,838

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

[illegible]

Years ended December 31		1994		1993
Revenue:				
Petroleum and natural gas	$	**1,659,718**	$	–
Royalties, net of Alberta Royalty Tax Credit		**(137,116)**		–
Interest and other income		**27,340**		56,767
		1,549,942		56,767
Expenses:				
Operating		**470,326**		–
General and administrative		**366,330**		160,660
Depletion and depreciation		**528,000**		–
Interest on long-term debt		**60,296**		–
		1,424,952		160,660
Income (loss) before other item		**124,990**		(103,893)
Discontinued operations (note 1)		**–**		(33,999)
Net income (loss)	$	**124,990**	$	(137,892)
Earnings (loss) per share	$	**0.01**	$	(0.01)
Earnings (loss) per share from discontinued operations	$	**–**	$	0.00

[illegible]

		1994		1993
Deficit, beginning of year	$	**(449,313)**	$	(311,421)
Net income (loss)		**124,990**		(137,892)
Deficit, end of year	$	**(324,323)**	$	(449,313)

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31	1994	1993
Cash provided by (used in):		
Operations:		
Net income (loss)	$ **124,990**	$ (103,893)
Depreciation and depletion	**528,000**	–
Funds flow from operations	**652,990**	(103,893)
Change in non-cash working capital	**411,323**	(9,669)
	$ **1,064,313**	$ (113,562)
Investments:		
Purchase of petroleum and natural gas properties	$ **(7,656,741)**	$ (135,732)
Proceeds on sale of equipment	–	66,001
Acquisition of subsidiary	–	(3,058,000)
	(7,656,741)	(3,127,731)
Financing:		
Shares reserved for issuance	**3,224,540**	–
Issue of common shares	**1,900,866**	2,062,438
Long-term debt	**1,065,000**	1,175,000
Loan to officer	**22,750**	(68,250)
Issue of common shares for loan	–	68,250
	6,213,156	3,237,438
Decrease in cash during the year	**(379,272)**	(3,855)
Cash position, beginning of year	**364,626**	368,481
Cash position, end of year	$ **(14,646)**	$ 364,626
Funds flow from operations per share	$ **0.04**	$ (0.01)

Cash position is defined as cash and bank indebtedness.
See accompanying notes to financial statements.

NOTES to Consolidated Financial Statements

(Years ended December 31, 1994 and 1993)

1. Significant accounting policies:

a] Business of the corporation:

During 1993 the Company changed its name to Elk Point Resources Inc. During the 1993 the Company discontinued its game ranching operations and commenced oil and gas exploration and development activities. The Company realized a loss on disposal of the game ranching operations of $33,999.

The consolidated financial statements include the accounts of the Company and its subsidiary.

b] Petroleum and natural gas properties:

The Company follows the full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the acquisition, exploration and development of oil and gas reserves are capitalized. Such costs are accumulated in a single cost centre representing the Company's activity undertaken exclusively in Canada. These capitalized costs together with production and related equipment are depleted and depreciated using the unit of production method based on estimated gross proven oil and gas reserves as determined by an independent reservoir engineer.

In applying the full cost method of accounting, capitalized costs less accumulated depletion are restricted from exceeding a net recoverable amount equal to the estimated undiscounted future net revenues, based on current prices and costs, derived from proven reserves, less the aggregate estimated future site restoration and reclamation costs net of salvage values, development, general and administrative, financing and income tax costs plus the lower of cost and estimated fair value of unproven properties.

The unit of production method is used to provide for estimated future site restoration costs of producing properties and facilities.

The accounts reflect only the Company's proportionate interest in exploration and production activities.

c] Per share data:

Per share data is calculated using the weighted average number of shares outstanding (1994 – 17,319,302, 1993 – 11,778,307) during the year. Fully diluted per share data is not presented as the exercise of share options and warrants, if such options and warrants were exercised, is not dilutive.

2. Acquisition:

Effective December 30, 1993, the Company acquired all the issued and outstanding shares of a private oil and gas company for cash consideration of $3,137,000. The acquisition has been accounted for as a purchase and the results of operations from December 30, 1993 have been included in the consolidated financial statements. The allocation of the purchase price is as follows:

Current assets	$ 79,000
Petroleum and natural gas properties	1,692,039
Gas plant and well equipment	1,365,961
	$ 3,137,000

3. Due from officer:

The amount due from officer is repayable in three annual payments of $22,750 beginning in 1994, and bears interest at 5% per annum. The funds were loaned to the officer to purchase 932,500 common shares of the Company for $93,250 (note 7). Interest of $3,156 (1993 – nil) was charged on the loan during the year.

4. Petroleum and natural gas properties:

1994	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$ 7,036,022	$ 333,349	$ 6,702,673
Gas plant and well equipment	3,781,381	179,495	3,601,886
Other	33,070	2,156	30,914
	$ 10,850,473	$ 515,000	$10,335,473

1993	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$ 1,827,771	$ –	$ 1,827,771
Gas plant and well equipment	1,365,961	–	1,365,961
	$ 3,193,732	$ –	$ 3,193,732

Costs of unproved properties excluded from costs subject to depletion and depreciation at December 31, 1994 were $1,670,000 (1993 – $754,00). The Company has capitalized general and administrative expenses during the year of $28,703 (1993 – $3,661).

5. Bank indebtedness:

Bank indebtedness is cheques issued in excess of cash in bank.

6. Long-term debt:

	1994	1993
Revolving production loan facility	**$ 2,240,000**	$ –
Term loan	–	1,175,000
Less current portion	–	600,000
	$ 2,240,000	$ 575,000

In 1994, the Company borrowed funds under a revolving production loan facility whereby repayments are not required provided the amounts borrowed do not exceed the lesser of $3,200,000 and an amount determined from time to time. The revolving production loan facility bears interest at prime plus 1.25% and is secured by a fixed charge over the Company's interest in certain petroleum and natural gas properties and a floating charge over all other assets.

7. Share capital:

Authorized:

Unlimited number of Class A voting common shares.

Issued:

	Number of Shares	Amount
Balance, December 31, 1992	5,932,826	$ 781,006
Issued for cash:		
Pursuant to private placements	5,716,071	561,607
Pursuant to exchange offering prospectus	2,200,000	1,650,000
Pursuant to private placement	932,500	93,250
Share issuance costs	–	(174,169)
Balance, December 31, 1993	14,781,397	2,911,694
Issued for cash:		
Exercise of stock options	50,000	3,750
Exercise of special warrants	3,850,000	1,540,000
Exercise of share purchase warrants	635,750	540,388
Share issuance costs	–	(183,272)
Balance, December 31, 1994	19,317,147	$ 4,812,560

a] Shares reserved for issuance:

On November 2, 1994, the Company issued 5,800,000 Special Warrants at an issue price of $0.60 per Special Warrant. Each Special Warrant will entitle the holder to acquire one Class A common share of the Company at no additional cost. Subsequent to December 31, 1994, the Special Warrants were exercised and common shares were issued.

b] During 1993 the Company established a stock option plan whereby certain officers, directors and employees may be granted options to purchase common shares. At December 31, 1994 options held to purchase 1,539,069 (1993 – 742,400) common shares were outstanding with exercise prices ranging from $0.075 to $0.65 (1993 – $0.075 to $1.10) per share.

c] On March 14, 1994, the Company entered into an agency agreement to issue 3,850,000 Special Warrants at a price of $0.40 per Special Warrant for total consideration of $1,500,000 before an agent's commission of $92,400 and expenses of $36,512. Each Special Warrant was to be converted into one common share of the Company upon the earlier of a) the qualification of such shares for distribution pursuant to a prospectus; or b) March 30, 1995. The Special Warrants were exercised on June 10, 1994.

d] Pursuant to the March 1, 1993 private placement 932,500 shares were issued to an officer at $0.10 per share. The officer borrowed funds from the Company to acquire the shares (note 3).

e] On July 6, 1993 the Company issued 1,100,000 units for $1.50 per unit pursuant to an exchange offering prospectus for total proceeds of $1,650,000. Each unit consists of two common shares and one share purchase warrant. Each share purchase warrant entitles the holder thereof to acquire one common share of the Company at $.85 on or before June 20, 1994. At December 31, 1993, 1,100,000 share purchase warrants were outstanding. On June 20, 1994, 635,750 share purchase warrants were exercised for total proceeds of $540,388. The balance of the remaining share purchase warrants expired unexercised on June 21, 1994.

8. Income taxes:

The provision for income taxes varies from the amounts that would be computed by applying the statutory federal and provincial income tax rates aggregating 44.3% to income before income taxes. Income taxes have been computed as follows:

	1994	1993
Computed "expected" tax provision recovery	**$ 53,300**	$ (61,100)
Crown royalties	**108,300**	–
Alberta royalty tax credit	**(47,000)**	–
Resource allowance	**(63,500)**	–
Losses, the benefit of which have not be recognized	**–**	61,000
Unrecognized benefit of losses	**(51,100)**	–
	$ –	$ –

Corporate Information

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President & Chief Executive Officer
Elk Point Resources Inc.

Donald R. Jepson
Independent Businessman

Dennis H. Crawford
President
D. Crawford Insurance Service (Calgary) Ltd.

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President & Chief Executive Officer

Donald R. Jepson
Chief Financial Officer

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BANKING

Alberta Treasury Branches

STOCK EXCHANGE LISTING

The Alberta Stock Exchange
Trading Symbol: ELK

Abbreviations

Bbls	barrels
Bbls/d	barrels of production per day
BOPD	barrels of oil per day
Mcf	thousand cubic feet
Mmcf	million cubic feet
Mmcf/d	million cubic feet per day
Bcf	billion cubic feet
Tcf	trillion cubic feet
MBOE	thousand barrels of oil equivalent
GJ	Gigajoules
Mbbls	thousands of barrels
API	American Petroleum Institute

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